VZCZCXYZ0001
PP RUEHWEB

DE RUEHLP #2998/01 3072047
ZNY CCCCC ZZH
P 032047Z NOV 06
FM AMEMBASSY LA PAZ
TO RUEHC/SECSTATE WASHDC PRIORITY 1201
INFO RUEHAC/AMEMBASSY ASUNCION 6249
RUEHBO/AMEMBASSY BOGOTA 3570
RUEHBR/AMEMBASSY BRASILIA 7431
RUEHBU/AMEMBASSY BUENOS AIRES 4692
RUEHCV/AMEMBASSY CARACAS 1942
RUEHPE/AMEMBASSY LIMA 1997
RUEHME/AMEMBASSY MEXICO 1867
RUEHMN/AMEMBASSY MONTEVIDEO 4143
RUEHQT/AMEMBASSY QUITO 4581
RUEHSG/AMEMBASSY SANTIAGO 9155
RUEHRI/AMCONSUL RIO DE JANEIRO 0876
RUEHSO/AMCONSUL SAO PAULO 2026
RHEHNSC/NSC WASHINGTON DC
RHEBAAA/DEPT OF ENERGY WASHINGTON DC
RUCPDOC/DEPT OF COMMERCE WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC

C O N F I D E N T I A L LA PAZ 002998

SIPDIS

SIPDIS

STATE FOR WHA/AND
TREASURY FOR SGOOCH
ENERGY FOR CDAY AND SLADISLAW

E.O. 12958: DECL: 11/03/2016
TAGS: ECON EINV ENRG EPET BL
SUBJECT: PETROBRAS' NEW CONTRACT

REF: LA PAZ 2943

Classified By: Ecopol Chief Andrew Erickson for reason 1.4 (e).

Summary

¶1. (C) Along with nine other companies, Brazil's Petrobras signed a new hydrocarbons production and exploration contract on October 28 (reftel). Petrobras executives told Econoff on November 1 that the company's rate of return would be lower than that of its original contract, but better than the return based on the May 1, 2006 nationalization decree. The executives were pessimistic about long-term profits and implied that Petrobras would not invest more than the amount required to maintain current operations. Petrobras successfully negotiated maintaining ownership of its assets and the right to international arbitration, but agreed to grant Bolivia's state oil company, YPFB, greater supervisory authority over its operations. End summary.

Better Than The Current Bad Deal

¶2. (C) The Brazilian-owned Petrobras, the largest hydrocarbons producer in Bolivia, signed a new production and exploration contract with Bolivia's state-owned oil company YPFB on October 28 (reftel). Petrobras executives told Econoff on November 1 that its returns would be based on a table of variables in its contract, including investment and production amounts, and that returns would vary by field. They said that although the new rate of return (around 20 percent) would be worse than that of its original contract (around 40 percent), it would be better than the unsustainable rate the company has been receiving since the GOB issued its nationalization decree on May 1, 2006 (around 5 percent).

Buying Time?

¶3. (C) According to the Petrobras executives, the company's new contract would enable it to profit in the short-term, but not the long-term, as its rate of return would decrease over time. They implied that Petrobras would not increase investments above the level required to continue current operations. However, they said that the contract contained a clause obligating Petrobras to deliver a certain amount of natural gas to YPFB, which would force them to make some investment. They explained that oil companies must think about the long-term, and that they hoped to get through the next few years in the black and strike a better deal with the next government.

International Arbitration Preserved

¶4. (C) Petrobras executives were able to negotiate maintaining ownership of Petrobras' assets in Bolivia until the end of the thirty-year contract term, rather than having them pass to YPFB immediately, as earlier versions of the model contract had prescribed. They also managed to retain the right to international arbitration, despite press announcements to the contrary, by including a clause stating that they could seek arbitration in accordance with Bolivian law and the regulations of the International Chamber of Commerce in Paris. YPFB achieved greater supervisory authority over Petrobras' operations, including the right to approve its work plans, drilling plans, and bidding processes. The executives were concerned that this greater YPFB oversight role would increase corruption.

Comment

¶5. (C) Based on conversations with Petrobras and other companies, it seems that the new contracts vary by producer, with bigger producers like Petrobras having less favorable rates of return than smaller producers, like Vintage, who predict their return rates will continue roughly the same as before. End comment.
GOLDBERG